

Getting The Markets
IN SYNCH
With Monetary Policy



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TWENTY-SIXTH ANNUAL
ECONOMIC POLICY
CONFERENCE

OCTOBER 11-12, 2001

FEDERAL RESERVE BANK
OF ST. LOUIS



Getting The Markets
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Thursday, October 11, 2001

1:30 Welcome
William Poole, *President,*
Federal Reserve Bank of St. Louis

1:45 Opening Remarks
Alan Greenspan, *Chairman, Board of*
Governors of the Federal Reserve System

2:30 Break

SESSION 1:
The Importance of Transparency

2:45 *Are Contemporary Central Banks Transparent*
about Economic Models and Objectives, and
What Difference Does It Make?
Author: Alex Cukierman, *Tel-Aviv University*
Discussant: Carl Walsh, *University of*
California at Santa Cruz

4:15 Break

4:30 *Does Transparency Improve Monetary Policy in Practice?*
Authors: Stephen Cecchetti and Stefan
Krause, *Ohio State University*
Discussant: K. Alec Chrystal, *City University*
Business School, London

6:00 Reception

7:00 Dinner

Friday, October 12, 2001

SESSION 2:
**Transparency in the Conduct
of Monetary Policy**

8:45 *Market Anticipations of Monetary Policy Actions*
Authors: William Poole, Robert H. Rasche and
Daniel L. Thornton, *Federal Reserve Bank of St. Louis*
Discussant: Mark Watson, *Princeton University*

10:15 Break

10:30 *Does It Pay to be Transparent? International
Evidence from Central Bank Forecasts*
Authors: Georgios Chortareas, *Bank of
England*, David Stasavage, *London School of
Economics*, and Gabriel Sterne, *Bank of England*
Discussant: Adam Posen, *Institute for
International Economics*

12:00 Lunch

1:30 *Inflation Targeting and Central Bank Credibility*
Authors: Jürgen von Hagen and Manfred
Neumann, *University of Bonn*
Discussant: Frederic Mishkin,
Columbia University

3:00 Break

SESSION 3:
**The Value of Transparency in
Conducting Monetary Policy**

3:15 **Panel Discussion:** *Transparency in the
Practice of Monetary Policy*

Panelists: Charles Freedman, *Bank of Canada*
Václav Klaus, *Parliament of the Czech Republic*
Alfred Broaddus, *Federal Reserve Bank of Richmond*

5:00 Adjourn

J. ALFRED BROADDUS, JR.

Federal Reserve Bank of Richmond

Alfred Broaddus is a native of Richmond, Virginia. He received his B.A. degree from Washington and Lee University, where he was elected to Omicron Delta Kappa and Phi Beta Kappa. He studied in France under a Fulbright Fellowship, where he received a graduate degree from the Center for Advanced European Studies of the University of Strasbourg. Mr. Broaddus received his M.A. and Ph.D. degrees in economics from Indiana University. He joined the research staff of the Federal Reserve Bank of Richmond as an economist in 1970 and was named assistant vice president in 1972, vice president in 1975, and senior vice president and director of research in 1985. He was promoted to president on January 1, 1993. Mr. Broaddus is the author of a number of articles on banking and monetary policy and has lectured at several colleges and universities. He is a member of the board of directors of the Virginia Council on Economic Education and the Executive Advisory Council of the E. Claiborne Robins School of Business at the University of Richmond. He is also a member of the Virginia Governor's Advisory Council on Revenue Estimates.

STEPHEN G. CECCHETTI

Ohio State University

Stephen G. Cecchetti has been a professor of economics at Ohio State University since 1987. He is also a research associate of the National Bureau of Economic Research. From August 1997 to September 1999, he was executive vice president and director of research at the Federal Reserve Bank of New York, as well as associate economist of the Federal Open Market Committee. He also served as a visiting professor of economics at several institutions, including the University of Melbourne in 1996, Boston College in 1994 and 1995, and Princeton University in 1992 and 1993. Cecchetti has been editor of the *Journal of Money, Credit, and Banking* since 1992 and on the editorial boards of the *American Economic Review*, the *Journal of Economic Literature*, the Ohio State University Press, and the *Economic Policy Review* of the Federal Reserve Bank of New York. He has published more than 50 articles in academic and policy journals on a variety of topics, including

banking, securities markets, and monetary policy. Cecchetti received a B.S. in economics from MIT in 1977 and a Ph.D. in economics from the University of California at Berkeley in 1982.

GEORGIOS E. CHORTAREAS

Bank of England

Georgios E. Chortareas is an economist at the International Economic Analysis Division of the Bank of England. His research interests are in the institutional design of monetary policy delegation, monetary policy rules, and international macroeconomics. He has taught at the University of Connecticut and was a post-doctoral fellow at the Minda De Gunzburg Center for European Studies, Harvard University. Chortareas received his B.A. from the Aristotle University of Thessaloniki, an M.Phil. from the University of Glasgow, and a Ph.D. from the University of Connecticut.

K. ALEC CHRYSTAL

City University Business School, London

K. Alec Chrystal is a professor of money and banking and head of the finance faculty at City University Business School, London. From 1997 to 2001, he was a senior advisor in the monetary analysis wing of the Bank of England, involved in briefing the U. K. Monetary Policy Committee and editing the bank's working paper series and the *Quarterly Bulletin*. Chrystal has been a visiting scholar at the Federal Reserve Bank of St. Louis (1983-84) and an economic advisor in HM Treasury. He has also taught at the Universities of Manchester, Essex, Sheffield, and the University of California, Davis, and was the recipient of a Fulbright award.

ALEX CUKIERMAN

Tel-Aviv University

Alex Cukierman is a professor of economics at Tel-Aviv University and a research fellow at the Center for Economic Research at Tilburg University and at CEPR. He earned his Ph.D. in economics from MIT. Cukierman is author or co-author of four books and more than 70 scientific articles in the areas of macroeconomics, monetary eco-

nomics, political economy, and monetary policy and institutions. A former president of the Israeli Economic Association, Cukierman has been a visiting professor or scholar at Northwestern University, New York University, Carnegie-Mellon University, Princeton University, the Federal Reserve Bank of St. Louis, the World Bank, the University of Chicago, Stanford University, and the University of Canterbury. His current work focuses on strategic interactions between labor market institutions and monetary policy-making institutions and consequences for monetary unions, the impact of asymmetries in central objectives for the inflation bias, transparency in monetary policy, central bank independence and inflation in the transition economies, and the choice of exchange-rate regime in the presence of currency attacks.

CHARLES FREEDMAN

Bank of Canada

Charles Freedman is deputy governor, Monetary Policy and Financial Analysis, of the Bank of Canada. Freedman was born in Toronto and graduated from the University of Toronto with a bachelor of commerce degree in 1963, winning the Governor General's Silver Medal. He then attended Oxford University on a Commonwealth Scholarship and received a B.A. with honors. In 1970, he graduated from MIT with a Ph.D. in economics. Prior to joining the Bank of Canada's research department in 1974, Freedman was a faculty member at the University of Minnesota and a research consultant for the bank. In 1978, he became deputy chief of the Department of Monetary and Financial Analysis and was named chief of the department in 1979. He was appointed advisor to the Governor in 1984, with special responsibility for the Department of Money and Financial Analysis. During 1989-90, Freedman spent 11 months at the Department of Finance as the Clifford Clark Visiting Economist. He was co-chair of the Payments System Advisory Committee to the Department of Finance in 1996-97 and is a member of the Committee on Payment and Settlement Systems at the Bank for International Settlements and a member of the Financial Stability Forum.

ALAN GREENSPAN

Chairman of the Board of Governors of the Federal Reserve System

Alan Greenspan was born in New York City and received a B.S. in economics (summa cum laude) in 1948, an M.A. in economics in 1950, and a Ph.D. in economics in 1977, all from New York University. From 1954 to 1974 and from 1977 to 1987, Dr. Greenspan was chairman and president of Townsend-Greenspan & Co., Inc., an economic consulting firm in New York City. From 1974 to 1977, he served as chairman of the President's Council of Economic Advisers under President Ford and, from 1981 to 1983, as chairman of the National Commission on Social Security Reform. Dr. Greenspan has also served as a member of President Reagan's Economic Policy Advisory Board, a member of *Time* magazine's board of economists, a senior advisor to the Brookings Panel on Economic Activity, and a consultant to the Congressional Budget Office.

VÁCLAV KLAUS

Parliament Speaker, Czech Republic

Václav Klaus graduated from the Prague School of Economics in 1963, where he studied international economic relations and international trade. Until 1970, he worked as a researcher at the Institute of Economics of the Czechoslovak Academy of Sciences. His main areas of interest were macroeconomic theory, monetary and fiscal policies, and comparative economics. From December 1989 until July 2, 1992, Klaus served as the first noncommunist finance minister, after more than 40 years of communist rule. In June 1992, after victory in the parliamentary elections, he became prime minister of the Czech Republic. He was again reappointed and became prime minister in July 1996. He resigned from this position in November 1997. In July 1998, after the early parliamentary elections, he was elected president of the Chamber of Deputies of the Czech Parliament. Klaus is a member of the Mont Pelerin Society and a recipient of 13 honorary doctoral degrees in seven countries and of 17 international awards. His views on inflation, monetary and fiscal policies, comparative economic systems, and economic transformation have been published in many scientific journals in his homeland and elsewhere. He has also published 19 books.

STEFAN KRAUSE

Ohio State University

Stefan Krause is an economics graduate student at the Ohio State University, where he has held the position of graduate associate from September 1996 to June 1998 and since June 1999. From July 1998 to June 1999, he was an economic advisor at the Ministry of Foreign Trade of Costa Rica. Krause received a B.A. in economics from the Universidad de Costa Rica in 1996 and an M.A. in economics from the Ohio State University in 1997.

FREDERIC S. MISHKIN

Columbia University

Frederic S. Mishkin is the Alfred Lerner Professor of Banking and Financial Institutions at the Graduate School of Business, Columbia University. He is also a research associate at the National Bureau of Economic Research. Since receiving his Ph.D. from MIT in 1976, he has taught at the University of Chicago, Northwestern University, Princeton University, and Columbia University. From 1994 to 1997, he was executive vice president and director of research at the Federal Reserve Bank of New York and an associate economist of the Federal Open Market Committee of the Federal Reserve System. In addition, Mishkin has served on the editorial board of the *American Economic Review* and has been an associate editor at the *Journal of Business and Economic Statistics*. He is currently an associate editor (member of the editorial board) of eight academic journals. He has been a consultant to the Board of Governors of the Federal Reserve System, the World Bank, and the International Monetary Fund, as well as to many central banks throughout the world. He is currently an academic consultant to and serves on the economic advisory panel of the Federal Reserve Bank of New York.

MANFRED J.M. NEUMANN

University of Bonn

Manfred J.M. Neumann is a professor of economics at the University of Bonn. He serves as a member of the Academic Advisory Council of the German Federal Ministry of Economics and of the Bundesbank's Research Advisory Council. He has been a visiting scholar at the Federal Reserve Board, the Federal Reserve Bank of St. Louis, the

Bank of Japan, and several universities, including Carnegie-Mellon University. Neumann has published more than 150 papers on topics in monetary economics. A recent focus of his research is the choice of macroeconomic institutions, as described in a recent paper, “The Political Economy of Inflation, Labor Market Distortions and Central Bank Independence” (with Berthold Herrendorf). Neumann also writes in the business press and belongs to the ECB watch group EMU Monitor.

WILLIAM POOLE

Federal Reserve Bank of St. Louis

William Poole took office as president and chief executive officer of the Federal Reserve Bank of St. Louis in March 1998. Prior to joining the Fed, Poole was the Herbert H. Goldberger Professor of Economics at Brown University. He has also served at the Fed’s Board of Governors as well as at several Reserve banks. He received his M.B.A. and Ph.D. from the University of Chicago and was honored with a doctor of laws degree from Swarthmore College. Poole wrote *Money and the Economy: A Monetarist View*, published in 1978, as well as numerous scholarly papers in professional journals, and was co-author of *Principles of Economics*, published in 1991.

ADAM S. POSEN

Institute for International Economics

Adam Posen is a senior fellow at the Institute for International Economics. His research focuses on macroeconomic policy in the industrial democracies and on central banking issues. Posen is the author of *Restoring Japan’s Economic Growth* (IIE, 1998; Japanese translation, Toyo Keizai, 1999), the co-author of *Inflation Targeting: Lessons from the International Experience* (Princeton University Press, 1999), and the editor of *The Future of Monetary Policy* (Blackwell, forthcoming), as well as numerous papers on monetary economics. From 1994 to 1997, he was an economist in international research at the Federal Reserve Bank of New York and, in 1993-94, he was Okun Memorial Fellow in Economic Studies at the Brookings Institution. He is the co-founder and the U.S. associate editor of the journal *International Finance*.

ROBERT H. RASCHE

Federal Reserve Bank of St. Louis

Robert H. Rasche is a senior vice president and director of research at the Federal Reserve Bank of St. Louis. He received his B.A. from Yale University in 1963 and M.A. and Ph.D. from the University of Michigan in 1965 and 1966, respectively. His principal research interests are monetary economics and macroeconomics. Rasche joined the Michigan State faculty in 1972 and was named professor of economics in 1975. He chaired the university's economics department from 1980 to 1984. He served as assistant professor of economics at the Wharton School, University of Pennsylvania, from 1966 to 1972. Rasche has also been a visiting scholar at the St. Louis and San Francisco Federal Reserve banks and the Bank of Japan, a member of the Michigan Governor's Council of Economic Advisers, and a consultant to several business organizations.

DAVID STASAVAGE

London School of Economics

David Stasavage is a lecturer in the Department of International Relations at the London School of Economics and a visiting scholar at the Bank of England. His research focuses on political economy issues in macroeconomic policy. Stasavage received his Ph.D. in political science from Harvard University (1995). Prior to his academic position at the London School of Economics, he held positions at the World Bank, the OECD, and Oxford University.

GABRIEL STERNE

Bank of England

Gabriel Sterne is an advisor in the Bank of England's International Economic Analysis Divisions. His research interests include the design of monetary policy frameworks, a field in which he has published widely. He was a leading author for and co-edited the book *Monetary Policy Frameworks in a Global Context* (Routledge, 2000) with Lavan Mahadeva, which includes one of the widest-ever surveys of monetary policy frameworks. As part of the Bank of England's technical assistance program, he has worked in approximately 20 countries in recent years, advising mainly on framework design, modeling, and forecasting.

DANIEL L. THORNTON

Federal Reserve Bank of St. Louis

Daniel L. Thornton is a vice president and economic advisor at the Federal Reserve Bank of St. Louis. Thornton joined the Research Department of the Federal Reserve Bank of St. Louis in 1981 as a staff economist. He was promoted to his current position in 1998. He has published numerous articles in the Federal Reserve Bank of St. Louis *Review* and in professional journals. He is an associate editor of the *Journal of Banking and Finance* and the *Journal of International Financial Markets Institutions and Money* and a member of both the St. Louis Board and the State Board of Trustees of the Missouri Council on Economic Education. He received his Ph.D. in economics from the University of Missouri-Columbia in 1976.

JÜRGEN VON HAGEN

University of Bonn

Jürgen von Hagen earned his Ph.D. in economics at the University of Bonn in 1985. He taught economics at the Kelley School of Business, Indiana University, 1987-92, and the University of Mannheim, 1992-96, and is currently professor of economics and director of the Center for European Integration Studies at the University of Bonn. The first winner of the Gossen Prize of the German Economic Association, Dr. von Hagen is a research fellow of CEPR, a member of the Council of the European Economic Association, a member of the Council of the German Economic Association, and a member of the French National Economic Committee. He has published more than 50 articles on monetary, international, and public economics in international, refereed academic journals and more than 70 contributions to other journals and books, as well as published or edited 20 monographs. He serves as consultant at the IMF, the European Commission, the Federal Reserve Board, the Inter-American Development Bank, and the World Bank.

CARL E. WALSH

University of California, Santa Cruz

Carl E. Walsh is a professor of economics at the University of California, Santa Cruz. He is also a visiting scholar at

the Federal Reserve Bank of San Francisco, where he served as a senior economist prior to joining the University of California, Santa Cruz. Previous positions include faculty appointments at the University of Auckland, New Zealand, and Princeton University. He has held visiting appointments at the University of California, Berkeley, and Stanford and has been a visiting scholar at the Federal Reserve banks of Kansas City and Philadelphia. Walsh's research focuses on issues in monetary economics and monetary policy. In addition to numerous journal articles, he is the author of *Monetary Theory and Policy*, a graduate-level text on monetary economics. Walsh is a past member of the board of editors of the *American Economic Review*, an associate editor of the *Journal of Money, Credit, and Banking* and the *Journal of Economics and Business*, and a member of the editorial board of the *Journal of Macroeconomics*. He received his Ph.D. in economics and his B.S. in mathematics and economics from the University of California, Berkeley.

MARK W. WATSON

Princeton University

Mark Watson is a professor of economics and public affairs at Princeton University. He is a research associate at the National Bureau of Economic Research and has served as a consultant for the Federal Reserve banks of Chicago and Richmond. Before joining the Princeton faculty, he was a professor of economics at Northwestern University. He holds a Ph.D. in economics from the University of California, San Diego.